



Emalahleni Local Municipality
Annual Financial Statements
for the year ended 30 June 2017

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

General Information

Legal form of entity	Local Municipality
Mayoral committee	
Executive Mayor	L L Ntshalinsthali
Speaker	M B Hlumbane
Chief Whip	C Simelane
Members of Mayoral committee	D M Skhosana B H Maseko S J Matshipa C L Maraba J Djiana T T Mathebula
MPAC Chairperson	C P Maseko
Councillors	M Bhamjee A J J Brits N F E Coetzer R E Cronje P L Debeila D C Dladla M T Fakude L B Goqo D H Grobler T P Gulube M S Jallal R Kgomo A B Khumalo K N Khumalo B T Lukhele T G Mabula M S Magagula M B Mahlangu M J Makola T D Malahle M M Malaza V J Manana C P Maseko M Z Maseko G B Masilela P N Mazibuko L Mbekeni V J Mhlapho D E Mlaba Z B Mlangeni N L Mofokeng S L Mokoena P L Mokwena V L Motsoene

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

General Information

	L Mphego J J Msibi D N Mthimkulu Z V Z Mtshweni A S Mtsweni N Naidu B D Nkosi S L Nkosi S S N Nombula B P Nukani M B Phahlane M A Radingwana J S Schneider-Breetzke T C Shabalala S B Shabangu M E Shongwe K Silaule L Steyn M A Tswaledi W A Van Wyk H J Venter M Venter P H Wilken S Zandamela J M Zondo
Grading of local authority	5
Accounting Officer	T Jansen van Vuuren
Chief Finance Officer (CFO)	J P Hlatshwayo
Registered office	Civic Centre Mandela Street Emalahleni 1035
Postal address	P O Box 3 Emalahleni 1035
Bankers	ABSA Bank Limited
Auditors	Auditor General of South Africa
Central email contact details	admin@emalahleni.gov.za
Audit committee members	
Audit committee chairperson	S A B Ngobeni N Msibi H Hlomane P Ramutsheli
Country of incorporation	South Africa

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
CFO	Chief Financial Officer
SARS	South African Revenue Services
EPWP	Expanded Public Works Programme
DOE	Department of Energy
MSIG	Municipal Systems Improvement Grant
APC	Accounting Practice Committee
SAICA	South African Institute of Chartered Accountants
PPE	Property , plant and equipment
INCA	Infrastructure Finance Corporation Limited
UIF	Unemployment Insurance Fund
PAYE	Pay as you earn
COGTA	Co-operative Governance and Traditional Affairs
VAT	Value Added Tax
MPAC	Municipal Public Accounts Committee
CRC	Current Replacement Cost
MREP	Municipal Revenue Enhancement Program
NDPG	Neighbourhood Development Program Grant

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 7.

The annual financial statements set out on pages 7 to 70, which have been prepared on the going concern basis, were approved by the on 31 August 2017 and were signed on its behalf by:

Mr T Jansen van Vuuren
Accounting Officer

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Audit Committee Report

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2017.

1. Review of activities

Main business and operations

Net deficit of the municipality was R 385 094 744 (2016: deficit R 556 415 339).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The municipality has changed their financial system effective 01 July 2017 in order to comply with MSCOA.

4. Accounting policies

The annual financial statements prepared in accordance with Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Reclassification

During the financial year the accounting officer has reclassified certain amounts in the financial statements in order to achieve fair presentation.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name

Mr T Jansen van Vuuren

7. Auditors

Auditor General of South Africa will continue in office for the next financial period.

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories	9	41 279 890	35 988 162
Receivables from other exchange transactions	10	26 058 786	20 746 057
Receivables from non-exchange transactions	11	48 917 443	18 893 018
Receivables from exchange transactions	12	731 817 853	617 651 210
Cash and cash equivalents	13	5 563 856	532 201
		853 637 828	693 810 648
Non-Current Assets			
Other property, plant and equipment - Game	3	2 239 070	1 963 395
Investment property	4	1 370 015 664	1 371 347 139
Property, plant and equipment	5	5 561 356 193	5 687 267 570
Intangible assets	6	5 237 802	1 571 772
Heritage assets	7	400 000	400 000
Other financial assets	8	7 936 334	8 145 343
		6 947 185 063	7 070 695 219
Total Assets		7 800 822 891	7 764 505 867
Liabilities			
Current Liabilities			
Loans and receivables	16	113 966 724	29 093 284
Finance lease obligation	14	1 575 714	3 081 592
Payables from exchange transactions	18	2 426 104 574	1 940 892 901
Consumer deposits	19	133 732 627	133 119 352
Unspent conditional grants and receipts	15	13 701 939	21 416 916
Provisions	17	52 322 491	46 810 342
Vat payable	52	(1 678 507)	27 809 693
Bank overdraft	13	-	1 111 880
		2 739 725 562	2 203 335 960
Non-Current Liabilities			
Loans and receivables	16	-	108 925 906
Finance lease obligation	14	1 757 817	1 948 921
Provisions	17	232 577 698	231 941 755
		234 335 515	342 816 582
Total Liabilities		2 974 061 077	2 546 152 542
Net Assets		4 826 761 814	5 218 353 325
Accumulated surplus		4 826 761 814	5 550 407 366

* See Note 46

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	21	1 430 771 772	1 377 670 291
Rental of facilities and equipment	22	12 219 669	12 794 154
Licences and permits	23	2 784 274	2 536 819
Commissions received	24	31 546 198	34 567 913
Sundry income	25	21 991 699	76 132 828
Fees earned	26	827 587	524 928
Interest revenue	27	130 052 695	95 959 725
Dividends received	27	540 982	119 088
Total revenue from exchange transactions		1 630 734 876	1 600 305 746
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	28	391 919 607	371 266 005
Transfer revenue			
Government grants & subsidies	30	397 467 251	402 308 755
Public contributions and donations	31	26 911 000	31 394 817
Fines		23 763 729	41 153 539
Total revenue from non-exchange transactions		840 061 587	846 123 116
Total revenue	20	2 470 796 463	2 446 428 862
Expenditure			
Employee related costs	32	(691 710 859)	(632 607 447)
Remuneration of councillors	33	(25 327 081)	(19 789 643)
Depreciation and amortisation	34	(284 557 071)	(468 536 904)
Impairment loss	35	(4 560 890)	(6 943 288)
Finance costs	36	(96 881 514)	(81 294 996)
Debt Impairment	37	(455 592 437)	(560 223 812)
Repairs and maintenance	40	(121 070 848)	(88 782 925)
Bulk purchases	38	(900 533 772)	(852 012 536)
Contracted services	39	(57 830 452)	(78 400 368)
Grants and Subsidies	29	(10 760 426)	(15 438 121)
General Expenses	41	(207 065 857)	(198 814 622)
Total expenditure		(2 855 891 207)	(3 002 844 662)
Operating deficit		(385 094 744)	(556 415 800)
Proceeds on sale of assets		-	461
Deficit for the year		(385 094 744)	(556 415 339)

* See Note 46

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Changes in Net Assets

Figures in Rand	Reclassification	Accumulated surplus	Total net assets
Balance at 01 July 2015	-	5 774 369 850	5 774 369 850
Changes in net assets			
Revenue	117 479 856	-	117 479 856
Expenditure	(281 126 683)	-	(281 126 683)
Assets	(401 872 294)	-	(401 872 294)
Liabilities	233 066 266	332 452 855	565 519 121
Net income (losses) recognised directly in net assets	(332 452 855)	332 452 855	-
Surplus for the year	-	(556 415 339)	(556 415 339)
Total recognised income and expenses for the year	(332 452 855)	(223 962 484)	(556 415 339)
Issue of shares	332 452 855	-	332 452 855
Total changes	-	(223 962 484)	(223 962 484)
Restated* Balance at 01 July 2016	-	5 211 856 558	5 211 856 558
Changes in net assets			
Surplus for the year	-	(385 094 744)	(385 094 744)
Total changes	-	(385 094 744)	(385 094 744)
Balance at 30 June 2017	-	4 826 761 814	4 826 761 814
Note(s)			

* See Note 46

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Annual Financial Statements for the year ended 30 June 2017

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Taxation		-	268 821 911
Sale of goods and services		1 423 920 025	1 342 785 334
Grants		397 467 251	402 338 755
Interest revenue		130 052 695	(4 924 790)
Dividends received		717 037 940	119 088
		2 668 477 911	2 009 140 298
Payments			
Employee costs		(717 037 940)	(652 397 090)
Suppliers		(840 261 652)	(898 986 344)
Finance costs		(96 538 481)	(81 293 700)
		(1 653 838 073)	(1 632 677 134)
Net cash flows from operating activities		1 014 639 838	175 487 050
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(158 721 912)	(112 839 302)
Proceeds from sale of property, plant and equipment	5	5 970 420	-
Proceeds from sale of investment property	4	1 053	-
Purchase of other intangible assets	6	(4 552 246)	(237 568)
Proceeds from sale of financial assets		209 009	562 345
Proceeds from sale of other property, plant and equipment - game		-	461
Net cash flows from investing activities		(873 590 634)	(112 514 064)
Cash flows from financing activities			
Repayment of loans and receivables		(24 052 466)	(3 217 601)
Movement in VAT liability		(29 488 200)	(74 406 442)
Finance lease payments		(2 625 895)	(1 217 321)
Net cash flows from financing activities		(56 166 561)	(78 841 364)
Net increase/(decrease) in cash and cash equivalents		767 800	(15 868 378)
Cash and cash equivalents at the beginning of the year		8 595 052	14 756 500
Cash and cash equivalents at the end of the year	13	9 362 852	767 800

* See Note 46

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Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 814 628 099	(533 693)	1 814 094 406	1 430 771 772	(383 322 634)	21.1% There was less billing on electricity and water due to theft
Rental of facilities and equipment	11 607 728	-	11 607 728	12 219 669	611 941	5.27%
Licences and permits	2 242 820	-	2 242 820	2 784 274	541 454	24.1% More licences where issued that it was initially anticipated
Commissions received	24 796 073	-	24 796 073	31 546 198	6 750 125	-27.2% The increase was due to a tariff increase which came into effect on 1st April 2017
Other income	22 913 734	533 693	23 447 427	22 819 286	(628 141)	2.67%
Interest received	87 479 435	-	87 479 435	130 052 695	42 573 260	-48.7% Increase was due to an increase in the debtors book.
Dividends received	-	-	-	540 982	540 982	
Total revenue from exchange transactions	1 963 667 889	-	1 963 667 889	1 630 734 876	(332 933 013)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	385 451 024	-	385 451 024	391 919 607	6 468 583	1.68%
Transfer revenue						
Government grants & subsidies	503 019 000	-	503 019 000	397 467 251	(105 551 749)	21.0% Less spending on MIG and NDGP ,only 30% of the NDPG was spent and 60% of MIG.
Public contributions and donations	26 285 000	22 000 000	48 285 000	26 911 000	(21 374 000)	56.0% Total budget should remain at R26 285 000.00 than the deviation that at 2.38%

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Fines, Penalties and Forfeits	4 063 212	-	4 063 212	23 763 729	19 700 517	100% More traffic fines where issued to defaulters
Total revenue from non-exchange transactions	918 818 236	22 000 000	940 818 236	840 061 587	(100 756 649)	
Total revenue	2 882 486 125	22 000 000	2 904 486 125	2 470 796 463	(433 689 662)	
Expenditure						
Employee related costs	(649 004 731)	(51 186 483)	(700 191 214)	(691 710 859)	8 480 355	1.21%
Remuneration of councillors	(25 735 151)	(328 324)	(26 063 475)	(25 327 081)	736 394	2.83%
Depreciation and amortisation	(167 500 000)	(36 074 999)	(203 574 999)	(284 557 071)	(80 982 072)	44.1% The increase was due to new addition and assets found on the floor which were not in the assets register
Impairment loss/ Reversal of impairments	-	-	-	(4 560 890)	(4 560 890)	
Finance costs	(72 718 205)	(35 052 451)	(107 770 656)	(96 881 514)	10 889 142	3.90%
Debt Impairment	(426 150 303)	234 257 111	(191 893 192)	(455 592 437)	(263 699 245)	3.95%
Repairs and maintenance	(125 517 653)	(26 487 821)	(152 005 474)	(121 070 848)	30 934 626	100% Less spending on water and sewerage reticulation and the repairs and maintenance on vehicles that budgeted for
Bulk purchases	(949 450 138)	(539 229)	(949 989 367)	(898 333 489)	51 655 878	5.44%
Contracted Services	(42 056 984)	(34 082 260)	(76 139 244)	(57 830 452)	18 308 792	24.0% Financial statement are being prepared internally which has resulted in less reliance on consultants
Transfers and Subsidies	(35 929 454)	5 000 000	(30 929 454)	(10 760 426)	20 169 028	65.2% indigents where overstated since every application was verified

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
General Expenses	(202 445 721)	(54 958 967)	(257 404 688)	(209 266 140)	48 138 548	18.7% There was less spending on rental equipment , electrical departmental charges than initially budgeted for
Total expenditure	(2 696 508 340)	546 577	(2 695 961 763)	(2 855 891 207)	(159 929 444)	
Deficit before taxation	185 977 785	22 546 577	208 524 362	(385 094 744)	(593 619 106)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	185 977 785	22 546 577	208 524 362	(385 094 744)	(593 619 106)	
Reconciliation						

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand, which is the functional currency of the Municipality.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. All amounts have been rounded off to the nearest rand.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgments include:

Trade receivables

The municipality assesses its held to maturity investments for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows or service potential used to determine the value-in-use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates and service potential, together with economic factors such as exchange rates, inflation and interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the Municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

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Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note .

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Land held for a currently undetermined future use, land is held for currently undetermined future use when:
An entity has not determined that it will use that land as owner-occupied property

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

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Accounting Policies

1.3 Investment property (continued)

Subsequent measurement

Subsequent to initial measurement investment property is measured using the cost model. The investment property is measured at cost less accumulated depreciation and accumulated impairment losses. The investment property is depreciated over a period of 30 years.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.4 Property, plant and equipment (continued)

Item	Average useful life
Infrastructure	
• Roads and paving	20 years
• Pedestrian malls	20 years
• Electricity	30 years
• Water	20 years
• Sewerage	20 years
Community assets	
• Buildings	30 years
• Recreational Facilities	20 years
• Security	30 years
• Halls	30 years
• Libraries	30 years
• Parks and gardens	30 years
Finance leased assets	
• Office equipment	3 years
Heritage assets	
• Buildings	
• Paintings and artifacts	
Other assets	
• Specialist vehicles	5 years
• Motor cycles	3 years
• Trucks / Bakkies	5 years
• Busses	15 years
• Fire engines	20 years
• Computer hardware & Software	3 years
• Office machines	3 years
• Air conditioners	5 years
• Furniture and fittings	7 years
• Household refuse bins	5 years
• Bulk containers	10 years
• Landfill sites	15 years
• Quarries	30 years
• Emergency equipment	5 years
• Airport / Radio Beacons	20 years
• Security systems / Access control	5 years
• Fencing	3 years

1.5 Property, plant and equipment

In the 2016/17 financial year the Municipality accounts for Game as other property, plant and equipment in accordance with GRAP 17. This game does not meet the definition of inventory as it is not sold or used in the ordinary course of operations nor is this the agricultural produce at the point of harvest. The activities undertaken are recreational purposes i.e. Biological assets are on nature reserves, and are not agricultural activities for purposes of GRAP 27. The action price has been used in the determination of the market value.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
the cost or fair value of the asset can be measured reliably.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

it is technically feasible to complete the asset so that it will be available for use or sale.
there is an intention to complete and use or sell it.
there is an ability to use or sell it.
it will generate probable future economic benefits or service potential.
there are available technical, financial and other resources to complete the development and to use or sell the asset.
the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are initially recognised at cost..

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Average useful life
Computer software, internally generated	3 years
Computer software, other	3 years

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1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Emalahleni Local Municipality

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1.8 Heritage assets (continued)

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one Municipality and a financial liability or a residual interest of another Municipality .

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an Municipality 's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'). It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
It is settled at a future date.

A financial asset is:

cash;
a residual interest of another Municipality ; or
a contractual right to:
- receive cash or another financial asset from another Municipality ; or
- exchange financial assets or financial liabilities with another Municipality under conditions that are potentially favourable to the Municipality .

A financial liability is any liability that is a contractual obligation to:

deliver cash or another financial asset to another Municipality ; or
exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the Municipality .

Emalahleni Local Municipality

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1.9 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an Municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Investments	Financial asset measured at amortised cost
Consumable debtors	Financial asset measured at amortised cost
Receivable from exchange transactions	Financial asset measured at amortised cost
Receivable from non-exchange transactions	Financial asset measured at amortised cost

The Municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumables deposits	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Finance leases	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost

Initial recognition

The Municipality recognises a financial asset or a financial liability in its statement of financial position when the Municipality becomes a party to the contractual provisions of the instrument.

The Municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The Municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The Municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The Municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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1.9 Financial instruments (continued)

Derecognition

Financial assets

The Municipality derecognises financial assets using trade date accounting.

The Municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the Municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the Municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the Municipality :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The Municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another Municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Emalahleni Local Municipality

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Accounting Policies

1.9 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the Municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the Municipality does not offset the transferred asset and the associated liability.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
distribution at no charge or for a nominal charge; or
consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

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1.11 Inventories (continued)

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Emalahleni Local Municipality

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1.13 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.13 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an Municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting Municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting Municipality's own creditors (even in liquidation) and cannot be paid to the reporting Municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting Municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an Municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an Municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the Municipality has indicated to other parties that it will accept certain responsibilities and as a result, the Municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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1.14 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The Municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the Municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an Municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Emalahleni Local Municipality

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Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an Municipality pays fixed contributions into a separate Municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the Municipality during a reporting period, the Municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an Municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Emalahleni Local Municipality

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Accounting Policies

1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

has a detailed formal plan for the restructuring, identifying at least:

- the activity/operating unit or part of a activity/operating unit concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for services being terminated;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
necessarily entailed by the restructuring; and
not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Emalahleni Local Municipality

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Accounting Policies

1.15 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

changes in the liability is added to, or deducted from, the cost of the related asset in the current period. the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit. if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and .

If the related asset is measured using the revaluation model:

changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:

- a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
- an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset; a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods; the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Emalahleni Local Municipality

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Accounting Policies

1.16 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Emalahleni Local Municipality

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Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

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1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No.20 of 1998), or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The budget for the municipality entity includes all the municipalities approved budgets under its control.

The Municipality considers any variance amount above the inflation of 10%. Explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Emalahleni Local Municipality

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Accounting Policies

1.25 Budget information (continued)

Comparative information is not required.

1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.27 Value-added tax

The Municipality accounts for value-added tax on an accrual basis. However the VAT paid / due to/by SARS is accounted for on a cash basis.

Emalahleni Local Municipality

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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 108: Statutory Receivables	01 April 2016	No significant impact
GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	No significant impact
IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	No significant impact
GRAP 16 (as amended 2015): Investment Property	01 April 2016	No significant impact

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3. Other property, plant and equipment - Game

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game in nature reserve	2 239 070	-	2 239 070	1 963 395	-	1 963 395

4. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1 404 485 705	(34 470 041)	1 370 015 664	1 404 489 917	(33 142 778)	1 371 347 139

Reconciliation of investment property - 2017

	Opening balance	Disposals	Depreciation	Total
Investment property	1 371 347 139	(1 053)	(1 330 422)	1 370 015 664

Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	1 372 677 562	(1 330 423)	1 371 347 139

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

Emalahleni Local Municipality

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5. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	431 340 245	-	431 340 245	431 340 245	-	431 340 245
Buildings	1 367 365 269	(709 944 612)	657 420 657	1 345 285 501	(674 454 227)	670 831 274
Furniture and fixtures	9 076 573	(7 294 208)	1 782 365	8 611 476	(6 946 831)	1 664 645
Motor vehicles	94 003 999	(71 434 688)	22 569 311	92 227 541	(62 514 077)	29 713 464
Office equipment	31 780 498	(20 704 455)	11 076 043	22 913 573	(18 294 992)	4 618 581
Water	1 980 823 462	(945 675 497)	1 035 147 965	1 966 016 181	(904 763 834)	1 061 252 347
Other property, plant and equipment	34 850 366	(32 449 252)	2 401 114	34 641 677	(29 785 108)	4 856 569
Sewerage main and purification	1 757 606 170	(768 533 091)	989 073 079	1 724 544 554	(737 316 695)	987 227 859
Roads	3 156 736 003	(1 764 481 448)	1 392 254 555	3 127 524 251	(1 659 335 888)	1 468 188 363
Emergency equipment	218 996	(125 700)	93 296	218 996	(79 053)	139 943
Electricity mains	1 828 209 257	(822 938 847)	1 005 270 410	1 793 377 162	(778 373 360)	1 015 003 802
Leased assets	585 880	2 691 246	3 277 126	13 240 052	(8 278 210)	4 961 842
Tip sites	10 177 425	(1 954 693)	8 222 732	7 629 867	(1 684 474)	5 945 393
Library books	2 365 511	(938 216)	1 427 295	2 365 511	(842 268)	1 523 243
Total	0 705 139 654	(5 143 783 461)	5 561 356 193	0 569 936 587	(4 882 669 017)	5 687 267 570

Emalahleni Local Municipality

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5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Work in progress	Disposals	Prior period adjustment to depreciation	Depreciation	Impairment loss	Total
Land	431 340 245	-	-	-	-	-	-	431 340 245
Buildings	670 831 274	16 972 123	9 936 660	(3 230 094)	-	(35 756 981)	(1 332 325)	657 420 657
Furniture and fixtures	1 664 645	465 097	-	-	-	(347 377)	-	1 782 365
Motor vehicles	29 713 464	2 402 516	-	-	-	(9 503 143)	(43 526)	22 569 311
Office equipment	4 618 581	8 932 679	-	-	-	(2 446 513)	(28 704)	11 076 043
Water	1 061 252 347	4 333 669	12 933 592	(1 180 066)	-	(42 159 328)	(32 249)	1 035 147 965
Plant and equipment	4 856 569	208 690	-	-	-	(2 664 145)	-	2 401 114
Sewerage	987 227 859	18 972 290	15 403 500	(642 041)	-	(29 765 231)	(2 123 298)	989 073 079
Roads	1 468 188 363	1 462 710	28 464 934	(154 148)	-	(105 670 048)	(37 256)	1 392 254 555
Emergency equipment	139 943	-	-	-	-	(46 647)	-	93 296
Electricity	1 015 003 802	4 885 500	31 386 274	(764 071)	-	(44 280 237)	(960 858)	1 005 270 410
Finance leased assets	4 961 842	-	-	-	(1 318 900)	(365 816)	-	3 277 126
Tip sites	5 945 393	-	2 547 558	-	-	(267 545)	(2 674)	8 222 732
Library books	1 523 243	-	-	-	-	(95 948)	-	1 427 295
	5 687 267 570	58 635 274	100 672 518	(5 970 420)	(1 318 900)	(273 368 959)	(4 560 890)	5 561 356 193

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5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Work in progress	Disposals	Adjustment to accumulated depreciation	Depreciation	Total
Land	431 340 245	-	-	-	-	-	431 340 245
Buildings	694 487 503	20 934 983	(9 080 381)	-	-	(35 510 831)	670 831 274
Furniture and fixtures	1 173 972	858 596	-	(51 817)	-	(316 106)	1 664 645
Motor vehicles	37 105 563	6 013 615	-	(3 915 406)	-	(9 490 308)	29 713 464
Office equipment	5 437 547	765 950	-	(566 629)	-	(1 018 287)	4 618 581
Water	1 101 868 893	1 542 408	-	-	-	(42 158 954)	1 061 252 347
Other property, plant and equipment	9 762 680	300 214	-	(2 288 778)	-	(2 917 547)	4 856 569
Sewerage main and purification	914 263 407	45 945 822	55 183 909	-	-	(28 165 279)	987 227 859
Roads	1 568 562 944	23 286 029	(17 990 895)	-	-	(105 669 715)	1 468 188 363
Emergency equipment	79 342	153 494	-	(55 225)	-	(37 668)	139 943
Electricity mains	1 002 482 827	16 661 754	39 690 317	-	-	(43 831 096)	1 015 003 802
Leased assets	4 213 084	3 039 416	-	-	1 303 318	(3 593 976)	4 961 842
Tip sites	6 212 938	-	-	-	-	(267 545)	5 945 393
Library books	1 619 454	-	-	-	-	(96 211)	1 523 243
	5 778 610 399	119 502 281	67 802 950	(6 877 855)	1 303 318	(273 073 523)	5 687 267 570

Pledged as security

No PPE was pledged as security

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6. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	8 339 342	(3 101 540)	5 237 802	4 024 663	(2 452 891)	1 571 772

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Adjustment to cost	Amortisation	Total
Computer software, other	2 065 908	237 568	(682 570)	(49 134)	1 571 772

7. Heritage assets

	2017			2016		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Sculptures	400 000	-	400 000	400 000	-	400 000

Reconciliation of heritage assets 2017

	Opening balance	Total
Sculptures	400 000	400 000

Reconciliation of heritage assets 2016

	Opening balance	Total
Sculptures	400 000	400 000

8. Other financial assets

At amortised cost

Listed Shares - Old Mutual	1 331 279	1 574 587
Listed Shares - Sanlam	2 651 357	2 617 058
Long Term Deposits - New Republic Bank	3 953 698	3 953 698
	7 936 334	8 145 343

Non-current assets

At amortised cost	7 936 334	8 145 343
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9. Inventories		
Consumable stores	22 080 311	16 143 959
Water stock	615 862	428 065
Unsold Properties Held for Resale	17 572 500	17 572 500
Face Value document	27 462	-
Purification material	983 755	1 843 638
	41 279 890	35 988 162
10. Receivables from other exchange transactions		
Other payments	2 983 944	2 708 912
Other receivables	10 236 235	13 158 538
Insurance debtor	-	4 040 000
Funeral Expenses - employees and councillors	75 450	75 450
Councillors UIF for prior year	763 157	763 157
New Water Pre payment	12 000 000	-
	26 058 786	20 746 057
11. Receivables from non-exchange transactions		
Traffic fines	12 542 326	11 787 093
Government grants and subsidies	25 100 089	1 923 228
Housing/ervens loans	10 903 160	4 810 829
Recoverable projects	340 496	340 496
Damage to Minisub NO021 Phola Zone 5	31 372	31 372
	48 917 443	18 893 018
TRAFFIC FINES		
The Municipality adopted IGRAP1 in the 2015 financial year. The receivable was not adjusted for any possible discounts as it is not the Municipality's policy to provide for early settlement discounts to offenders that play fines within the required timeframe. The AARTO system has not yet been implemented for the Mpumalanga province.		
HOUSING/ERVEN LOANS		
When Council sells land to the public , a 60 day period is given for applying for a bond and registration thereof. by failing to do so, the transaction is cancelled.		
12. Receivable from exchange transactions		
Gross balances		
Rates	326 856 703	293 028 121
Electricity	589 912 483	482 717 337
Water	868 375 811	726 845 167
Sewerage	317 898 213	261 500 219
Refuse	205 402 982	178 214 637
Other (specify)	206 623 038	173 992 395
	2 515 069 230	2 116 297 876
Less: Allowance for impairment		
Rates	(235 822 246)	(202 470 678)
Electricity	(353 943 173)	(270 023 912)
Water	(649 545 211)	(555 857 403)
Sewerage	(243 514 355)	(200 943 643)
Refuse	(159 441 811)	(131 836 503)
Other (specify)	(161 653 564)	(137 514 527)
	(1 803 920 360)	(1 498 646 666)

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
12. Receivable from exchange transactions (continued)		
Net balance		
Rates	91 034 457	90 557 443
Electricity	235 969 310	212 693 425
Water	218 830 600	170 987 764
Sewerage	74 383 858	60 556 576
Refuse	45 961 171	46 378 134
Other (specify)	65 638 457	36 477 868
	731 817 853	617 651 210
Included in above is receivables from exchange transactions		
Electricity	235 969 310	263 173 919
Water	218 830 600	274 904 325
Sewerage	74 383 858	98 122 636
Refuse	45 961 171	71 024 736
	575 144 939	707 225 616
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	91 034 457	128 408 979
Other (specify)	65 638 458	(217 983 384)
	156 672 915	(89 574 405)
Net balance	731 817 854	617 651 211
Rates		
Current (0 -30 days)	5 516 688	6 096 731
31 - 60 days	3 113 378	3 931 193
61 - 90 days	3 013 241	3 770 434
91 - 120 days	2 749 241	2 956 951
121 - 365 days	17 387 581	18 911 958
> 365 days	59 254 328	54 890 176
	91 034 457	90 557 443
Electricity		
Current (0 -30 days)	14 818 873	17 257 731
31 - 60 days	10 170 277	7 334 960
61 - 90 days	7 409 436	5 368 962
91 - 120 days	6 890 304	5 253 155
121 - 365 days	46 934 296	37 382 562
> 365 days	149 746 124	140 096 055
	235 969 310	212 693 425
Water		
Current (0 -30 days)	3 151 161	3 184 067
31 - 60 days	6 280 438	5 973 211
61 - 90 days	5 974 075	4 834 542
91 - 120 days	4 989 338	5 481 921
121 - 365 days	39 323 859	34 545 537
> 365 days	159 111 729	116 968 486
	218 830 600	170 987 764

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
12. Receivable from exchange transactions (continued)		
Sewerage		
Current (0 -30 days)	1 138 073	1 604 277
31 - 60 days	2 209 201	2 001 571
61 - 90 days	2 105 063	1 707 400
91 - 120 days	1 814 966	1 906 319
121 - 365 days	14 222 194	12 076 104
> 365 days	52 894 361	41 260 905
	74 383 858	60 556 576
Refuse		
Current (0 -30 days)	625 072	1 125 209
31 - 60 days	1 185 798	1 233 564
61 - 90 days	1 144 433	1 133 622
91 - 120 days	1 011 146	1 105 128
121 - 365 days	7 114 789	7 371 746
> 365 days	34 879 933	34 408 865
	45 961 171	46 378 134
Other (specify)		
Current (0 -30 days)	1 673 781	2 546 823
31 - 60 days	853 300	1 529 877
61 - 90 days	1 234 003	426 209
91 - 120 days	702 332	736 375
121 - 365 days	11 158 538	8 401 600
> 365 days	29 347 520	22 836 984
	44 969 474	36 477 868
Reconciliation of allowance for impairment		
Balance at beginning of the year	(1 498 646 665)	(1 097 011 840)
Contributions to allowance	(385 117 236)	(468 255 273)
Debt impairment written off against allowance	79 843 541	66 620 448
	(1 803 920 360)	1 498 646 665

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Collateral investments	(3 798 996)	188 121
Bank balances	9 162 483	-
Market Account	200 369	344 080
Bank overdraft	-	(1 111 880)
	5 563 856	(579 679)
Current assets	5 563 856	532 201
Current liabilities	-	(1 111 880)
	5 563 856	(579 679)

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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13. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
ABSA Account number 1360-000-091	5 933 832	5 502 617	14 147 460	4 879 797	(2 668 445)	8 777 901
ABSA Account - Licencing - 4080890928	1 401 048	1 455 545	5 558 892	4 616 812	1 453 911	5 558 892
ABSA - Nics - 4080890952	-	54 049	209 039	-	54 049	209 039
ABSA - Traffic Fines - 4080890910	28 629	21 224	186 191	(365 507)	21 223	186 191
ABSA Market Account - 1360-000-067	200 369	344 080	363 587	200 369	344 080	363 587
Total	7 563 878	7 377 515	20 465 169	9 331 471	(795 182)	15 095 610

14. Finance lease obligation

Minimum lease payments due

- within one year	1 820 020	3 309 700
- in second to fifth year inclusive	1 852 871	2 003 011

less: future finance charges

3 672 891	5 312 711
(359 359)	(345 220)

Present value of minimum lease payments

3 313 532	4 967 491
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Present value of minimum lease payments due

- within one year	1 575 714	3 081 592
- in second to fifth year inclusive	1 757 817	1 885 899
	3 333 531	4 967 491

Non-current liabilities

1 757 817	1 948 921
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Current liabilities

1 575 714	3 081 592
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3 333 531	5 030 513
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The Municipality enters into finance lease arrangements with the ABD Financial Services (Pty) Ltd. The Municipality leases it photo copier machines. The average lease term is 3 years and the average effective borrowing rate is 7% for all new leases entered into. (2016: 9%). Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Revenue Enhancement Program	9 804	9 804
Human Settlement Grant	13 692 135	18 248 145
NDPG	-	3 158 967
	13 701 939	21 416 916

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

See note for reconciliation of grants from National/Provincial Government.

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
16. Loans and receivables		
At amortised cost		
ABSA Bank	-	2 807 298
The municipality has entered into the following loan agreements with ABSA :		
1. The loan amount is R 7 900 000.00 for a period of 10 years with a redeemable date 05 October 2019. The applicable interest rate 9.38% per annum with an installment of R 574 060.36 monthly.		
INCA - Standard bank	19 491 086	22 583 987
The municipality has entered into the following agreements with INCA:		
1. The loan amount is R 4 400 000.00 for a period of 10 years with a redeemable date 31 December 2018, The applicable interest rate 9.4% per annum with an installment of R 34 4824.45 bi-annually		
2. The loan amount is R 2 519 347.00 for a period of 15 years with a redeemable date 31 December 2021, The applicable interest rate 5% per annum with an installment of R 158 529.50 bi-annually		
3. The loan amount is R 21 900 000.00 for a period of 15 years with a redeemable date 30 June 2022, The applicable interest rate 11.12% per annum with an installment of R 102 833.81 bi-annually		
4. The loan amount is R 2 700 000.00 for a period of 15 years with a redeemable date 31 December 2022, The applicable interest rate 9.35% per annum with an installment of R 169 174.96 bi-annually		
5. The loan amount is R 605 100.00 for a period of 10 years with a redeemable date 31 December 2018, The applicable interest rate 9.4% per annum with an installment of R 47 311.41 bi-annually		
6. The loan amount is R 4 802 852.00 for a period of 15 years with a redeemable date 31 December 2024, The applicable interest rate 9.35% per annum with an installment of R 300 808.00 bi-annually		

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
16. Loans and receivables (continued)		
Development Bank of South Africa	65 897 265	75 423 877
The municipality has entered into the following agreements with DBSA:		
1. The loan amount is R 82 547 000.00 for a period of 15 years with a redeemable date 30 June 2023, The applicable interest rate 9.28% per annum with an installment of R 5 154 352.23 bi-annually		
2. The loan amount is R 2 350 123.00 for a period of 15 years with a redeemable date 30 June 2023, The applicable interest rate 5% per annum with an installment of R 112 314.77 bi-annually		
3. The loan amount is R 13 100 000.00 for a period of 20 years with a redeemable date 30 June 2019, The applicable interest rate 9.38% per annum with an installment of R 1 02 193.66 bi-annually		
4. The loan amount is R 2 582 560.00 for a period of 10 years with a redeemable date 30 June 2018, The applicable interest rate 5% per annum with an installment of R 165 707.18 bi-annually		
5. The loan amount is R 6 700 000.00 for a period of 15 years with a redeemable date 30 June 2018, The applicable interest rate 9.34% per annum with an installment of R 419 901.02 bi-annually		
6. The loan amount is R 619 000.00 for a period of 10 years with a redeemable date 30 June 2017, The applicable interest rate 9.38% per annum with an installment of R 48 404.08 bi-annually		
7. The loan amount is R 15 019 633.00 for a period of 20 years with a redeemable date 30 June 2019, The applicable interest rate 12.05% per annum with an installment of R 1 092 861.67 bi-annually		
Nedbank	28 578 373	37 204 028
The municipality has entered into the following agreements with Nedbank:		
1. The loan amount is R 71 445 948.00 for a period of 1 years with a redeemable date 30 June 2023, The applicable interest rate 11.39% per annum with an installment of R 4 668 261.00 bi-annually		
	113 966 724	138 019 190
Total other financial liabilities	113 966 724	138 019 190
Non-current liabilities		
At amortised cost	-	108 925 906
Current liabilities		
At amortised cost	113 966 724	29 093 284

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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17. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Total
Landfill sites	8 793 755	867 943	-	9 661 698
Employee benefit cost	223 148 000	-	(232 000)	222 916 000
Other provisions	46 810 342	5 512 149	-	52 322 491
	278 752 097	6 380 092	(232 000)	284 900 189

Reconciliation of provisions - 2016

	Opening Balance	Change in provision for landfill provision	Utilised during the year	Total
Land fill sites	8 003 781	789 974	-	8 793 755
Employee benefit cost	197 019 000	-	26 129 000	223 148 000
Other provisions	33 341 813	13 468 529	-	46 810 342
	238 364 594	14 258 503	26 129 000	278 752 097

Non-current liabilities	232 577 698	231 941 755
Current liabilities	52 322 491	46 810 342
	284 900 189	278 752 097

The warranty provision represents management's best estimate of the municipality's liability under one period warranties granted on (electrical) (products), based on (prior experience) (and) (industry averages for defective products).

There is no expected reimbursement (from the manufacturer) in respect of this provision.

The restructuring provision relates to redundancy costs incurred on the disposal of. At , approximately -% of the staff had been retrenched. The remainder departed in .

The municipality moved from its previous leased premises. The lease is non-cancellable and the lease continues for the next - years. The municipality cannot find a lessee to occupy the premises.

18. Payables from exchange transactions

Trade payables	2 101 306 145	1 544 891 609
Payments received in advanced	53 800 662	53 800 662
Other creditors	232 463 517	316 218 352
Retentions	37 111 344	24 351 904
Market Agency	200 369	344 080
BHP Billiton : Water Leak C/CE	-	67 072
Deposits : Other	1 222 537	1 219 222
	2 426 104 574	1 940 892 901

19. Consumer deposits

Water and electricity	133 732 627	133 119 352
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Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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20. Revenue

Service charges	1 430 771 772	1 377 670 291
Rental of facilities and equipment	12 219 669	12 794 154
Licences and permits	2 784 274	2 536 819
Commissions received	31 546 198	34 567 913
Other income	21 991 699	76 132 828
Fees earned	827 587	524 928
Interest revenue	130 052 695	95 959 725
Dividends received	540 982	119 088
Property rates	391 919 607	371 266 005
Government grants & subsidies	397 467 251	402 308 755
Public contributions and donations	26 911 000	31 394 817
Fines	23 763 729	41 153 539
	2 470 796 463	2 446 428 862

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	1 430 771 772	1 377 670 291
Rental of facilities and equipment	12 219 669	12 794 154
Licences and permits	2 784 274	2 536 819
Commissions received	31 546 198	34 567 913
Other income	21 991 699	76 132 828
Fees earned	827 587	524 928
Interest revenue	130 052 695	95 959 725
Dividends received	540 982	119 088
	1 630 734 876	1 600 305 746

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	391 919 607	371 266 005
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Transfer revenue

Government grants & subsidies	397 467 251	402 308 755
Public contributions and donations	26 911 000	31 394 817
Fines	23 763 729	41 153 539
	840 061 587	846 123 116

21. Service charges

Service charges	4 098 318	6 024 579
Sale of electricity	853 357 610	798 756 286
Sale of water	347 171 265	347 428 856
Sewerage and sanitation charges	130 014 587	135 536 132
Refuse removal	96 129 992	89 924 438
	1 430 771 772	1 377 670 291

22. Rental of facilities and equipment

Premises

Premises	3 990 926	4 642 839
Theatre hire	73 338	77 731
Venue hire	48 939	15 437
Rental of furniture	9 848	318
	4 123 051	4 736 325

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
22. Rental of facilities and equipment (continued)		
Garages and parking		
Rental of hangars	212 373	203 712
Facilities and equipment		
Rental of equipment	7 884 245	7 854 117
	12 219 669	12 794 154
23. Licences and permits		
Drivers licenses - Produba	2 437 435	2 313 467
Flammable liquid licenses	150 446	135 406
Hawkers association	181 754	60 849
Porters permits	1 956	1 698
Trade licenses	12 683	25 398
	2 784 274	2 536 818
24. Commission received		
Collection Commission	119 191	118 907
Commissions - Market	2 835 964	3 117 550
Fees - Prov : Monies	28 591 043	31 331 456
	31 546 198	34 567 913
25. Sundry income		
Health subsidy	-	55 480 000
Tender documents	252 137	273 990
Building line relaxation	303 819	196 012
SETA Claims	1 497 289	1 115 635
Sale of stands	15 925 965	14 028 963
Unclaimed deposits	2 160 085	4 686 825
Incidental income	1 859 485	351 403
	21 998 780	76 132 828
26. Fees earned		
Information	38 012	35 078
Handling defaulters	769 481	469 642
Library books	9 581	9 695
Parking	10 513	10 513
	827 587	524 928
27. Investment revenue		
Dividend revenue		
Listed financial assets - Local	540 982	119 088
Interest revenue		
Interest charged on arrear accounts	130 052 695	95 959 725
	130 593 677	96 078 813

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
28. Property rates		
Rates received		
Property rates	391 919 607	371 266 005
Valuations		
Residential	34 663 712 960	31 498 616 650
Commercial	9 614 957 400	7 113 029 200
State	1 012 312 800	1 012 312 800
Municipal	2 340 509 400	2 342 618 400
Other (Agriculture , Mining ,etc)	6 617 660 500	9 463 723 800
	54 249 153 060	51 430 300 850
29. Grants and subsidies paid		
Other subsidies		
Grants and subsidies paid to the indigent	10 760 426	15 438 121

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
30. Government grants and subsidies		
Operating grants		
Equitable share	256 437 000	229 575 000
Municipal Infrastructure Grant	68 328 000	115 796 000
National Treasury (Fin.Man.Grant)	1 810 000	1 675 000
Grant - Expanded Public Works Programme	2 891 000	1 378 000
Grant - Department of Energy	31 386 274	16 661 755
Grant - Human Settlement	26 556 010	35 381 967
Grant - Capital Neighbourhood development grant	10 058 967	1 841 033
	397 467 251	402 308 755

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 2017 R 174 - (2016: R 240), which is funded from the grant.

Extended Public Works Programme Incentive

Current-year receipts	2 891 000	1 378 000
Conditions met - transferred to revenue	(2 891 000)	(1 378 000)
	-	-

This grant was used to improve service delivery in municipalities as part of the upgrading of informal and formal settlements. Included in the roads ,sewerage , water , and fencing votes.

MIG Grant

Current-year receipts	68 328 000	115 796 000
Conditions met - transferred to revenue	(68 328 000)	(115 796 000)
	-	-

This grant was used to construct roads, sewerage and water infrastructure , as part of the upgrading of informal and formal settlement areas.

FMG Grant

Current-year receipts	1 810 000	1 675 000
Conditions met - transferred to revenue	(1 810 000)	(1 675 000)
	-	-

This grant was used to fund expenditure to enhance National Treasury Budget Reform program.

DOE Grant

Balance unspent at beginning of year	1 923 228	(6 033 473)
Prior year debtors allocation	(15 813 726)	-
Prior year income not recognised	36 560 587	-
Current - year receipts	31 386 274	20 772 000
Conditions met - transferred to revenue	(31 386 274)	(16 661 775)
	22 670 089	1 923 228

This grant was used to install services to new settlements.

Human settlement grant

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
30. Government grants and subsidies (continued)		
Balance unspent at beginning of year	18 248 145	53 630 112
Current-year receipts	22 000 000	-
Conditions met - transferred to revenue	(26 556 010)	(35 381 967)
	13 692 135	18 248 145

This grant was used to supply water to rural areas , as well as sewer services to informal settlements.

Neighbourhood Development Partnership Grant

Balance unspent at beginning of year	3 158 967	-
Current-year receipts	10 058 967	5 000 000
Grants withdrawn by treasury	(3 158 967)	-
Conditions met - transferred to revenue	(10 058 967)	(1 841 033)
	-	3 158 967

This grant was used to improve service delivery in municipalities as part of the upgrading of informal and formal settlements. Included in the roads , sewerage , water and fencing votes

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2005), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

31. Public contributions and donations

Anglo American	10 634 559	1 445 664
Nkangala District Municipality	3 551 317	23 932 900
Department of Enviromental Affairs	-	4 100 000
Standard Bank	-	30 000
Exxaro	12 325 124	1 886 253
Xtrata coal	400 000	-
	26 911 000	31 394 817

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
32. Employee related costs		
Basic	462 685 333	390 537 720
Bonus	28 790 437	29 013 251
Medical aid - company contributions	47 594 927	69 589 527
UIF	2 702 864	2 482 173
Leave pay provision charge	11 106 111	17 352 564
Other short term benefits	1 210 000	5 184 100
Post-employment benefits - Defined contribution plans	81 604 750	69 295 972
Overtime payments	51 255 958	44 944 929
Housing benefits and allowances	3 554 471	3 220 375
Contributions - Group insurance	1 206 008	986 836
	691 710 859	632 607 447
Remuneration of municipal manager		
Annual Remuneration	1 241 182	1 241 182
Car and telephone allowance	798 740	784 860
Contributions to UIF, Medical and Pension Funds	1 785	1 785
	2 041 707	2 027 827
Remuneration of chief finance officer		
Annual Remuneration	945 364	432 850
Car Allowance	674 424	297 296
Contributions to UIF, Medical and Pension Funds	287 858	16 218
	1 800 089	746 364
Remuneration of executive directors		
Annual Remuneration	4 069 500	3 493 429
Car Allowance	3 271 860	2 379 408
Contributions to UIF, Medical and Pension Funds	1 066 041	1 273 806
	8 497 400	7 146 643
33. Remuneration of councillors		
Executive Mayor	921 912	691 434
Mayoral Committee Members	4 532 598	3 645 773
Speaker	737 529	553 147
Councillors	16 492 000	12 768 716
Councillors' pension contribution	2 335 611	2 130 573
	25 019 650	19 789 643
34. Depreciation and amortisation		
Property, plant and equipment	283 226 649	448 281 592
Investment property	1 330 422	20 255 312
	284 557 071	468 536 904

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
35. Impairment of assets		
Impairments		
Property, plant and equipment	4 560 890	6 943 288
The review of the condition of the water treatment plant led to the recognition of the impairment loss		
36. Finance costs		
Eskom account	78 147 031	72 036 905
Finance leases	343 033	(29 758)
Long term liabilities	17 523 506	8 239 712
Fair value adjustments on payables	-	258 164
Landfill sites	867 944	789 973
	96 881 514	81 294 996
37. Debt impairment		
Bad debts	455 592 437	560 223 812
Debt impairment methodology:		
Past history has been analysed to group the categories of debtors. After performing an assessment on the collectability of debtors, this may have resulted in the adjustment of the debtors category. Outstanding debt is divided into 3 categories when calculating the impairment. The categories as follows :		
Category A : No provision is made for Government and current accounts.		
Category B : 50% provision is made for irregular payers.		
Category C : 100% provision is made for municipal accounts, indigent and non-payers.		
Category D : 100% provision is made for levied deposits but not paid.		
38. Bulk purchases		
Electricity	876 971 887	798 938 234
Water	23 561 885	53 074 302
	900 533 772	852 012 536
Percentage of electricity distribution losses	42.89%	41.90%
Percentage of water distribution losses	69.93%	46.17%
Electricity Sales		
Total purchases		
2017 R 965 132 686		
2016 R 1 014 660 703		
Total Sales		
2017 R 551 153 703		
2016 R 554 504 897		
Units unaccounted for		
2017 R 413978983		
2016 R 399945399		
Losses in Rand value :		
2017 R 353 239 134.80		
2016 R 235 154 563.36		

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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38. Bulk purchases (continued)

Water Sales

Total purchases

2017 R 21 363 149

2016 R 25 405 255

Units unaccounted for

2017 9599829

2016 16010560

Losses in Rand value :

2017 R 50 111 108.42

2016 R 83 575 120.59

39. Contracted services

Professional Services

30 678 150

52 480 524

Security Services

17 181 990

16 395 973

Analysis Costs

9 970 312

9 523 871

57 830 452

78 400 368

40. Repairs and maintenance

Water

17 263 502

13 150 114

Roads

18 243 737

10 262 945

Electricity

63 627 854

43 067 971

Buildings

3 569 007

1 911 074

Computers and Equipments

18 366 748

18 538 027

121 070 848

86 930 131

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Figures in Rand	2017	2016
41. General expenses		
Advertising	511 136	581 555
Assessment rates & municipal charges	2 447 578	2 379 913
Auditors remuneration	8 087 764	7 964 545
Bank charges	7 904 956	7 542 699
Cleaning	-	3 339
Commission paid	6 779 685	5 843 710
Computer expenses	9 350	1 908
Legal Costs	20 180 591	4 779 939
Debt collection	153 056	516 010
Entertainment	1 220 426	525 328
Town Planning	877 193	4 759 403
Insurance	12 058 443	7 295 505
Promotions and sponsorships	14 987	25 004
Levies	5 727 803	4 951 477
Motor vehicle expenses	2 668 675	3 442 471
Packaging	1 292 361	2 330 976
Fuel and oil	12 764 358	10 903 012
Postage and courier	3 058 043	2 382 899
Printing and stationery	2 234 459	3 837 428
Protective clothing	2 793 070	3 481 759
Royalties and license fees	499 965	1 782 864
Subscriptions and membership fees	6 742 463	5 468 548
Telephone and fax	8 848 989	5 881 145
Transport and freight	21 131 172	20 540 788
Training	1 597 645	1 868 265
Travel - local	2 225 483	1 709 500
Refuse	14 831	29 444
Electricity	3 717 105	1 527 236
Water	1 225 264	50 988
Monitoring - cut off	-	439 240
Meter Readings	5 381 907	4 922 911
Other expenses	17 942 511	9 402 158
Departmental charges	186 492	4 685 745
Material and provisions	28 997 970	19 624 040
Management : landfill sites	3 796 702	5 289 326
Workmens compensation	1 119 970	5 615 822
Stipends	2 079 000	3 400 050
Data cleansing project	-	2 850 000
Impairment of traffic fines	10 774 454	30 177 672
	207 065 857	198 814 622
42. Auditors' remuneration		
Fees	8 087 764	7 964 545

Emalahleni Local Municipality

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Figures in Rand	2017	2016
43. Commitments		
Capital commitments		
Already contracted for but not provided for		
Property, plant and equipment	185 935 501	152 405 329
Operational commitments		
The municipality has entered into agreements with service providers for the provision of various service providers. At reporting date the municipality has outstanding operational commitments.	108 899 841	32 000 172

Emalahleni Local Municipality

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44. Contingencies

Forthwith is a list of possible liability claims where the outcome was unknown at 30 June 2017:

Legal claims against the municipality	Claim amount	Cause of action	Status of the outcome of the dispute
ABSA property development	36 560 587	Claim for payments due to the plaintiff for the fully subsidized housing component klarinet project.	The matter is being defended and still pending
Chris Vrey and Ejanette Vrey	160 958	Claim for damages as a result of the plaintiff colliding with another vehicle which made an emergency stop due to a pothole	he matter is being defended and still pending
Coetzee L.C	1 050 000	Claim for damages as a result of failure by the municipality to construct and maintain roads, provide and display speed limit signs on all roads manage and operate all roads in a manner commensurate with their design and take appropriate steps to remove alternatively limit danger if a road is an urban design and / or barrier kerb is used . plaintiff collided with another vehicle as a result had to have right arm amputated.	The matter is being defended and still pending
Dark Fibre Africa (Pty) Ltd	218 256	Claim for damages as a result of the plaintiff's cable being damaged due to alleged negligence of the defendant's employees	The matter is being defended and still pending
Debbie Sutherland	920 000	Claim for damages as a result of plaintiff being injured when the vehicle she was travelling in hit a pothole	The matter is being defended and still pending
Guillame Drik Van Niekerk	200 000	Claim for damages in respect of infringement of rights to liberty , freedom, integrity , dignity and privacy by way of unlawful arrests and detention	The matter is being defended and still pending
Ntswaki Annah Zondo	500 000	Claim for damages as a result of acts of defamation	The matter is being defended and still pending
Merc Carriers CC	496 827	Claim for damages as a result of the plaintiff's vehicle being driven into an unmarked and un-lit trench on a road allegedly within the jurisdiction of the municipality	The matter is being defended and still pending

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44. Contingencies (continued)

Nelisa Sannah Sgudla Obo Sbusiso Zelibani Nkosi	2 500 000	Claim for damages Claim for damages as a result of a minor child playing at or near a substation wherein the minor child came into contact with high-voltage electricity and sustained severe electrical shock resulting in severe facial and bodily burns.	The matter is being defended and still pending
Nomqibelo Annah Ntuli	850 000	Claim for damages as a result of the plaintiff being injured when she fell into an uncovered drain	The matter is being defended and still pending
Ophthalmicare CC	1 743 148	A claim for damages caused to the plaintiffs aeroplane due to the failure of the municipality to maintain aerodrome	The matter is being defended and still pending
Precious Thandiwe Makwakwa Obo Nthabiseng Pascaline Matsebe	2 500 000	Claim for damages as a result of a minor child playing at or near a substation wherein the minor child came into contact with high-voltage electricity and sustained severe electrical shock resulting in severe facial and bodily burns.	The matter is being defended and still pending
Relay Setting (Pty) Ltd	6 007 481	Claim for outstanding payments as a result of goods supplied and delivered	The matter is being defended and still pending
Sasol Gas	3 334 111	Claim for damages as a result of Municipal employees when they were laying a water pipe	The matter is being defended and still pending
Senzi Martha Motsepe	702 000	Claim for loss of support	The matter is being defended and still pending
Soundprops	9 222 070	Claim for payment of for the amount of R 9 222 069,56 for electricity consumption wrongly debited to the plaintiff as a result of a faulty electrical meter in respect of certain ervens owned by the plaintiff and / or its predecessor	The matter is being defended and still pending
Tiva Clement	40 208	Claim for damages incurred as a result of the plaintiff driving over an unmarked island	The matter is being defended and still pending
Uwane Davies Mananyetjo (1st Plaintiff) Kganyane Georgina Mananyetjo (2nd Plaintiff)	147 685	Claim for damages incurred allegedly to the plaintiff's property as a result of the alleged unlawful demolition of the plaintiff's property	The matter is being defended and still pending

Emalahleni Local Municipality

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44. Contingencies (continued)

Witbank Abbatoir

135 707

Claim for damages due to water interruptions at the plaintiff's place of business

The matter is being defended and still pending

67 289 038

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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45. Related parties

Related party balances

Loans key management	Opening balance	Loans advanced	Loans repaid	Closing balance
Executive mayor - L Ntshalintshali	-	-	-	-
Speaker - M B Hlumbane	-	-	-	-
Councillors	-	-	-	-
Accounting officer - T Jansen van Vuuren	-	-	-	-
Chief Financial Officer - P.J. Hlatshwayo	-	-	-	-
Directors	-	-	-	-
	-	-	-	-

There were no related party transactions identified during the course of the 2017 financial year.

46. Prior period adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2016

	Note	As previously reported	Correction of error	Re-classification	Restated
	12	-	-	-	-
Receivables from Non-Exchange	11	11 231 521	7 661 497	-	18 893 018
Receivable from exchange transactions	10	22 109 228	(1 363 171)	-	20 746 057
Property, plant and equipment	5	7 371 487 383	(1 684 219 813)	-	5 687 267 570
Cash and cash equivalent	13	(1 111 880)	344 080	188 121	(579 679)
Intangible assets	6	2 076 941	(505 169)	-	1 571 772
Investment Property	4	754 739 788	616 607 351	-	1 371 347 139
Finance Leases	14	4 967 491	63 022	-	5 030 513
Payables from Exchange	18	1 965 506 018	(24 613 118)	-	1 940 892 900
Vat Payables	52	28 818 697	103 225 139	-	132 043 836
Consumer deposits	19	116 492 112	-	16 627 240	133 119 352
Accumulated Surplus		6 270 896 685	-	-	6 270 896 685
		6 547 213 984	(982 800 182)	16 815 361	5 581 229 163

Statement of financial performance

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand		2017	2016		
46. Prior period adjustments (continued)					
2016					
	Note	As previously reported	Correction of error	Re-classification	Restated
Service charges	21	1 281 025 711	96 653 893	(9 313)	1 377 670 291
Government Grants and subsidies		402 308 755	-	-	402 308 755
Depreciations and Amortisation	34	285 396 862	183 140 042	-	468 536 904
Fines		20 336 889	20 816 650	-	41 153 539
Finance Costs	36	81 293 700	1 297	-	81 294 997
Repairs and Maintanance	40	86 930 131	1 852 794	-	88 782 925
Debt impairment	37	463 569 919	96 653 893	-	560 223 812
Bulk Purchases	38	875 772 939	(23 760 403)	-	852 012 536
Contracted services	39	76 943 876	1 456 490	-	78 400 366
Grants and subsidies	29	15 438 121	-	-	15 438 121
General expenses	41	177 032 054	21 782 568	-	198 814 622
Deficit		392 759 662	163 656 138	-	556 415 800
Deficit for the year		4 158 808 619	562 253 362	(9 313)	4 721 052 668

Emalahleni Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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46. Prior period adjustments (continued)

Reclassifications

In order to achieve fair presentation and comply with the qualitative characteristics of financial statements as required by GRAP the following accounts have been renamed in order to ensure that the financial statements are understandable to the users.

<u>Old</u>	<u>New</u>
Purification water	- Water stock
Water works purification	- Purification material
Other income	- Sundry income
Consumer receivables	- Receivable from exchange transactions

Reclassification 1 Fees Earned and Commission Received

The Fees Earned in 2015/2016 of R 31 331 456.00 has been reclassified to Commission received, after careful consideration of the amounts included in Fees earned in the prior year management was of the view that the Fees earned from provisional department of transport and the municipal market must be disclosed as commission as these Fees in their nature arose from agency relationships also as permitted by GRAP 9

Reclassification 2 Service charges

In The Previous Financial Year ended 2015/2016 the fees earned amounting to R 9313.00 were classified as service charges management has reclassified these fees into the corrected categories as fees earned

Reclassification 3 Cash and Cash equivalents

The Cash and Cash equivalent balance of R 27 381 has been reclassified and added to the Bank overdraft balance per cash book so as to reflect the current net bank of the municipality as at year end. After careful consideration of the face of the statement of financial position as at 30 June 2016, management decided to disclose a single balance for both the positive and negative bank balances in order to achieve fair presentation as it was considered that the current disclosure will cause a confusion.

Reclassification 4 Other Financial Assets

Management has reclassified other investments as Cash and cash equivalent. This was done after a thorough investigations of the nature of these short term investments the investments are short call accounts which can be easily converted to cash.

Statement of financial performance - extract

	Comparative figures previously reported 2015/2016	Reclassification 2016/2017	After reclassification 2016/2017
Service Charges	1 281 025 711	(9 313)	1 281 016 398
Commission Received	3 236 457	31 331 456	34 567 913
Fees Earned	31 847 071	(31 322 143)	524 928
	1 316 109 239	-	1 316 109 239

Statement of financial position - extract

Cash And cash equivalents	27 381	160 740	188 121
Bank Overdraft	(1 139 261)	27 381	(1 111 880)
Receivables from exchange transactions	22 109 228	16 627 240	38 736 468
	20 997 348	16 815 361	37 812 709

Emalahleni Local Municipality

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47. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Consumer debtors comprise a widespread community base. The Municipality manages its credit risk through payment of deposits disconnection in the case of non-payment.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2017	2016
ABSA Ltd	-	(1 118 251)
Trade and other receivables	780 735 026	656 387 679

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

48. Going concern

We draw attention to the fact that at 30 June 2017, the municipality had accumulated deficits of R 4 826 761 814 and that the municipality's total liabilities exceed its assets by R 4 826 761 814.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The manages its capital ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities, Bank, Cash and Cash Equivalent and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in the Statement of Changes in Net Assets.

49. Unauthorised expenditure

Opening balance	1 063 270 878	232 751 483
Unauthorised Expenditure Current cash items	17 114 507	60 868 589
Unauthorised Expenditur Current - Non cash	630 402 329	755 213 275
Unspent Grants not Cash Backed	4 924 038	14 437 531
	1 715 711 752	1 063 270 878

50. Fruitless and wasteful expenditure

Opening balance	217 173 688	143 017 289
Eskom Interest	78 147 031	72 036 905
SARS interest and penalties	1 043 517	1 766 288
Land scheme management Act	-	316 306
Penalties on late payments of loan	-	36 900
Interest accrued on late payment of suppliers	8 369	-
	296 372 605	217 173 688

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Figures in Rand	2017	2016
51. Irregular expenditure		
Opening balance	102 883 122	66 871 330
Add: Irregular Expenditure - current year	12 260 214	36 011 792
	115 143 336	102 883 122
Details of Deviations – current year		
Strip and route		4 009 334
Sole supplier	Regulation 36 of the MFMA	4 644 809
Emergencies	Regulation 36 of the MFMA	5 446 847
		14 100 990
52. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	6 419 882	3 597 202
Amount paid - current year	(6 419 882)	(3 597 202)
	-	-
Audit fees		
Opening balance	5 585 332	-
Current year fee	7 817 597	7 964 545
Amount paid - current year	(6 881 942)	(2 379 213)
	6 520 987	5 585 332
PAYE and UIF		
Current year subscription / fee	97 483 309	90 100 984
Amount paid - current year	(97 483 309)	(90 100 984)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	84 307 614	71 163 178
Amount paid - current year	(84 307 614)	(71 163 178)
	-	-
VAT		
VAT receivable	(416 951 248)	290 986 778
VAT payable	415 272 740	(319 805 475)
	(1 678 508)	(28 818 697)

2The Municipality pays VAT over to SARS using the cash basis. However the annual financial statements are prepared using the accrual basis of accounting. Hence the difference between the net VAT due to the municipality as reflected on the VAT 201 returns and the net VAT payable disclosed on the financial statements. All VAT returns have been submitted by the due date throughout the year.

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52. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
CLLR. M.B Phahlane	177	1 657	1 834
CLLR. P.N Mazibuko	14 944	22 952	37 896
	15 121	24 609	39 730

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.